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January 5, 2022

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**Subject: Connection Fee Study**

Oscar Antillon:

HF&H Consultants (HF&H) is pleased to submit this technical memorandum for sewer connection fees. The memorandum outlines the methodology and analysis that updates the Town of Los Altos Hills' (Town's) sewer connection fees.

The Town's current connection fee was set in 2006 at \$7,950 per equivalent dwelling unit (EDU). One EDU is defined as 60 fixture units (FU)<sup>1</sup> or less. The connection fee was based on a staff report that HF&H Consultants did not receive or review as part of this study. **Figure 4** derives the recommended connection fee of \$11,236 per EDU.

## CONNECTION FEES

New development connecting to the Town's sewer system, or current connections that increase their need for capacity through expansion (together referred to as Growth), is charged a connection fee at the time of connection/expansion. Publicly owned sewer system's assets are typically paid for by the contributions of existing customers through rates, charges, and taxes. Existing customers' investment in the existing system capacity allows newly connecting customers, or customers looking to expand, to take advantage of unused surplus capacity. To further economic equity among new and existing customers seeking additional capacity or new connectors will typically buy-in to the existing, effectively putting them on par with existing customers.

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<sup>1</sup> Fixture Units are plumbing fixtures that drains to the sewer system (e.g., sink, shower, dishwasher)



Connection fees are a type of development impact fee that public agencies may impose as a condition of development under the authority of California Government Code Section 66000 et seq., the Mitigation Fee Act (Act).

The purpose of connection fees is to ensure that development pays its fair share of the costs associated with providing system capacity. Connection fees are a one-time charge paid at the time the connection is made. The Act requires that “those fees or charges shall not exceed the estimated reasonable cost of providing the service”. Because the Act does not prescribe a formula or procedure for determining “the estimated reasonable cost,” it is the responsibility of the analyst to employ a method that yields a reasonable result.

The courts generally regard fees as being reasonable if they are not capricious, arbitrary, or discriminatory. Fees are capricious if there is no factual basis for the underlying data used to make the calculations. Fees are arbitrary if there is no logical rationale for choosing among alternatives. Fees are discriminatory if they disproportionately allocate costs to one class of service at the expense of another class.

The purpose of this report is to document that the conditions have been met to establish that the Town’s connection fees recover the reasonable cost of providing capacity.

## **ANALYTICAL APPROACH**

Three steps are required to determine the reasonable costs that can be recovered with connection fees: (1) assets that benefit Growth must be identified, (2) the cost of those facilities must be derived, and (3) the capacity provided by those facilities must be determined. The approach used in this report to address each of these steps is described below.

## **ASSETS THAT BENEFIT GROWTH**

Connection fees are used to recover Growth’s fair share of the costs of existing facilities that were funded by rate payers and that provide capacity for Growth. Because the Town is largely built out, Growth occurs as infill and expansion, which can occur anywhere within the service area. Hence, all of the facilities required to serve the Town’s current customers are the same facilities that provide service for Growth. In effect, the Town’s current sewer collection system is an integral network that can provide capacity for Growth.

The Town’s current fixed assets include the Purissima Pump Station, O’Keefe Pump Station, and the sewer pipes.



The connection fee also includes the cash reserves of the Town's Sewer Enterprise. The cash reserves are included with the existing facilities because they are assets that has been contributed to the system by current rate payers. As of June 30, 2021, the Sewer Enterprise had a fund balance of \$3.9 million per Town staff.

**Purissima Pump Station.** In August 2000, the Town studied the costs associated with replacing the Purissima Pump Station. The construction cost to replace the pump station was estimated at \$300,000. Using the ENR CCI<sup>2</sup>, the pump station could be replaced at a cost of \$580,869 in 2021.

**O'Keefe Pump Station.** The Town's second pump station, the O'Keefe pump station is roughly half the size of the Purissima Pump Station. Town staff estimates that the construction cost to replace the pump station would be roughly half the construction cost of the Purissima Pump Station which would be \$300,000.

**Sewer Pipes.** Town staff provided a list of all the sewer pipes owned by the Town. Pipes 6" or smaller were excluded since they were likely contributed by developers. **Figure 1** shows the total length in linear feet, replacement cost in dollars per linear foot, and the total replacement cost of the Town's sewer pipes that are 8" or larger. Estimates for the cost per linear foot were derived from construction cost estimates throughout California.

**Figure 1. Sewer System Pipe Assets**

Pipe Size	Length (LF)	Cost per LF	Replacement Cost
8"	103,512	\$150.40	\$15,567,732
10"	6,811	\$187.99	\$1,280,429
12"	3,132	\$225.59	\$706,558
			<u>\$17,554,718</u>

**Figure 2** shows the total replacement cost of all the Town's sewer assets and the fund balance; the sum of which are the assets that Growth must buy into with connection fees.

**Figure 2. Sewer System Assets**

Asset	Replacement Cost New
Purissima Pump Station	\$580,869
O'Keefe Pump Station	\$300,000
Sewer Pipes	\$17,554,718
Cash Reserves	\$3,900,000
	<u>\$22,335,588</u>

<sup>2</sup> Engineer News Record Construction Cost Index. San Francisco Region. December 2000 ENR CCI: 7,447.99; November 2021 ENR CCI: 14,421.03; Ratio: 14,421.03/7,447.99=1.94



## CAPACITY IN FACILITIES

The capacity of the facilities should correspond to the facilities that are included in determining the value of capacity. The current number of sewer connections is converted to a standard connection referred to as an equivalent dwelling unit (EDU). An EDU relates non-single-family connections to an equivalent single-family residential connection based on the ratio of the customer's estimated daily water use and strength of wastewater discharge compared to that of a single-family residence.

The Town's current sewer service charge assesses each account on a per EDU basis and collects revenues via the County tax roll. Each year, the Town provides an assessment roll to the County listing each parcel and their respective EDUs. Furthermore, there are a number of parcels that aren't assessed a sewer service charge the tax rolls. These parcels includes schools, Purissima Hills Water District, Town Hall, and the Town's corporation yard. The sum of the assessment roll EDUs and the non-assessed properties is a good measurement of current system capacity.

**Figure 3** summarizes the system capacity in EDUs.

<b>Figure 3. Sewer System Capacity</b>		
<b>EDU Factor</b>	<b>Parcels</b>	<b>EDUs</b>
1.00	1,724	1,724.00
1.50	152	228.00
2.33	1	2.33
7.97	1	7.97
8.07	1	8.07
Subtotal Assessed		1,970.37
Subtotal Non-Assessed		17.50
<b>Total EDUs</b>		<b>1,987.87</b>

## RECOMMENDED CONNECTION FEES

The value of the sewer facilities in **Figure 2** serves as the basis for the connection fee. The connection fee is determined by dividing the value by the capacity (in EDUs) shown in **Figure 3**. The derivation of the connection fee is shown in **Figure 4**.



**Figure 4. Connection Fee Derivation**

Connection Fee per EDU	
Sewer System Assets [1]	\$22,335,588
Sewer System Capacity (EDUs) [2]	1,987.87
<b>Connection Fee per EDU</b>	<b>\$11,236</b>

1. Source: Figure 2

2. Source: Figure 3

As discussed above, Growth in the Town will likely occur as home renovations when residents add accessory dwelling units (ADUs)<sup>3</sup> or expand their homes to include additional fixture units<sup>4</sup>. The Town's current sewer service charge is based on an assumed 60 fixture units. When a new customer connects, it is buying capacity for *up to* 60 fixture units.

Additions or expansions should be charged on a fixture unit basis but only once the additional fixture units exceed 60. **Figure 5** calculates the connection fee for each additional fixture unit above 60.

**Figure 5. Connection Fee per Fixture Unit**

Connection Fee per Fixture Unit	
Connection Fee per EDU	\$11,236
Fixture Units per EDU	60
<b>Connection Fee per Fixture Unit</b>	<b>\$187.27</b>

## CONNECTION FEE COMPARISONS

**Figure 6** shows the current and proposed connection fees compared to a selection of surrounding agencies for a standard single family residential connection.

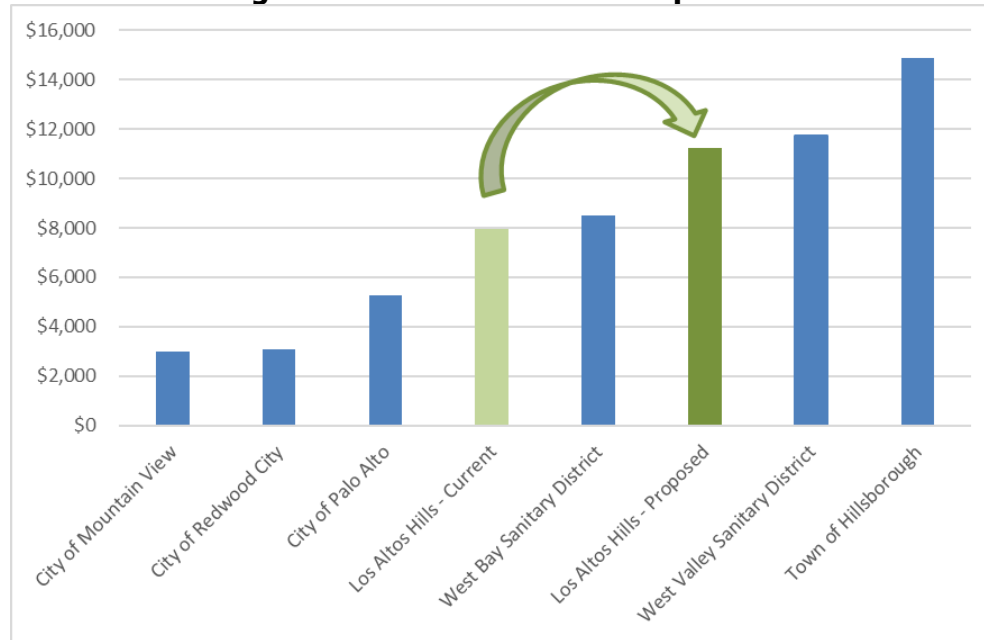
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<sup>3</sup> An ADU is defined as "an attached or a detached residential dwelling unit that provides complete independent living facilities for one or more persons and is located on a lot with a proposed or existing primary residence."

<sup>4</sup> Fixture Units are plumbing fixtures that drains to the sewer system (e.g., sink, shower, dishwasher)



**Figure 6. Connection Fee Comparison**



## STUDY LIMITATIONS

This document was prepared solely for the Town of Los Altos Hills (Town) in accordance with the contract between the Town and HF&H Consultants and is not intended for use by any other party for any other purpose.

In preparing this study, we relied on information and instructions from the Town, which we consider accurate and reliable and did not independently verify.

Rounding differences caused by stored values in electronic models may exist.

This document represents our understanding of relevant laws, regulations, and court decisions but should not be relied upon as legal advice. Questions concerning the interpretation of legal authorities referenced in this document should be referred to a qualified attorney.

Sincerely,

**HF&H CONSULTANTS, LLC**

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